Exhibit A-4

West Bank and Gaza—IMF Assessment Letter for the Norwegian Authorities[1]

April 8, 2015

Recent Economic Developments

1. **The Palestinian economy is likely to have contracted by nearly ½ percent in 2014, the first such contraction since 2006.** In Gaza, growth is estimated to have declined by 15 percent last year, reflecting the impact of the Hamas-Israel conflict that claimed many lives, destroyed significant parts of the Gazan infrastructure, and disrupted economic activity. In the West Bank, growth reached 5 percent, up from 1 percent in 2013, driven mainly by donor-financed public investment and an increase in exports. Unemployment rose from 25 percent at end-2013 to 27 percent at end-2014 (43 percent in Gaza and 17 percent in the West Bank).

2. **Overall inflation in the West Bank and Gaza (WBG) remained low, with inflation in Gaza exceeding inflation in the West Bank.** Inflation remained subdued under 2 percent in the West Bank, as in Israel, despite a depreciation of the shekel in the second half of 2014, helped by lower fuel prices. In Gaza, after a spike to 6 percent in August, inflation eased to below 1 percent in January 2015.

3. **On the fiscal front, a modest reduction in the deficit was achieved in 2014, thanks to strong revenues.** The overall deficit declined from 12.5 percent of GDP in 2013 to an estimated 12.1 percent in 2014. Clearance revenue growth outpaced budget projections, helped by a sharp rise in excise revenue collection.[2] Reflecting mainly the authorities' efforts to improve tax administration, there was also some improvement in domestic revenue performance. In addition, tax refunds declined markedly, reflecting lower fuel subsidies helped by declining global fuel prices. On the other hand, growth in spending was high, especially on the wage bill, which exceeded budget projections. The authorities also managed to reduce some arrears to the private sector, though new arrears (NIS 1.7 billion on a net basis) to the Pension Fund and private suppliers accumulated reflecting the combined impact of higher spending and lower donor budget support.

4. **The banking sector weathered the conflict in Gaza reasonably well, but high exposure to the Palestinian Authority (PA) and real estate remains an issue.** The

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[1] IMF assessment letters are typically produced in response to requests from multilateral or bilateral donors or creditors. This assessment letter was prepared by IMF staff upon request of the Norwegian authorities. The authors are Christoph Duenwald, Ragnar Gudmundsson, and Anna Unigovskaya.

[2] Clearance revenues are revenues collected by Israel in the form of indirect taxes on imported goods. These revenues are later transferred to the Palestinian Authority.

capital-asset ratio (for local banks) reached 18 percent at end-September, albeit down from 21 percent at end-December 2013, nonperforming loans remained under 3 percent (helped by exceptional loan rescheduling measures), and profitability was good. Despite weak growth, credit growth accelerated from 11 percent at end-2013 to 17 percent at end-2014 and exceeding growth in deposits. However, banks' direct exposure to the PA and to its employees remains over 40 percent of total domestic bank credit, and almost 50 percent of banks' domestic loan portfolio was concentrated in the mortgage and consumer market where monitoring remains weak.

Outlook and Risks

5. **Various headwinds reduce the chances of a robust economic recovery in 2015.** The suspension in January–March 2015 by Israel of clearance revenue, which accounts for two-thirds of overall revenue and is roughly equivalent to the PA's wage bill, caused severe fiscal strains and adversely affected the broader economy. While the Government of Israel on March 27, 2015 announced it will transfer the tax revenues accrued up until February (net of charges for services provided to the Palestinian population, such as electricity, water, and hospitalization), partial wage payments and other public spending cuts during January–March will likely lead to some reduction in private consumption for the year as a whole, and confidence effects related to the fiscal crisis will limit private investment. In addition, Gaza reconstruction is proceeding much slower than expected, reflecting unfulfilled donor pledges from the Cairo conference amid a lack of progress in Hamas-Fatah reconciliation. While lower oil prices should provide consumers with some relief, real GDP will likely rise only modestly in 2015, with a 10 percent increase in Gaza from a low base and a drop of nearly 2 percent in the West Bank.

6. **Staff's 2015 fiscal projection implies a significant financing gap**. The projection, which assumes resumption of clearance transfers, as well as full transfer of previously withheld revenues, is for an overall deficit of about 15 percent, nearly 3 percentage points higher than in 2014, with a financing gap in excess of $400 million, or 3¼ percent of GDP, based on projected donor financing of $1.5 billion. The recurrent deficit is projected to decline marginally relative to 2014, by 0.4 percentage points. In the absence of additional donor support, the financing gap will likely be filled by further arrears accumulation.

7. **Over the medium term, the growth outlook depends critically on the whether or not the peace process resumes.** Assuming the political status quo and donor aid at current levels, growth would remain subpar with rising unemployment and persistent financing gaps. However, if Israeli-Palestinian relations further deteriorate, a political and security crisis could ensue that would lead to accelerated arrears accumulation and economic contraction, especially if donors signal scaling back of their support. By contrast, a breakthrough in the peace process could yield a substantial dividend for the WBG economy if it prompts an easing of Israeli restrictions and catalyzes stronger donor support.

8. **The already somber outlook is subject to significant downside risks**. First, the fiscal crisis caused by the withholding of clearance revenue would deepen with the potential need to meet financial obligations related to a private civil suit against the PA and the Palestine Liberation Organization (PLO) in a New York court. The fiscal crisis, in turn, could lead to social unrest and strikes, and ultimately, if left unchecked, would threaten the PA's financial viability. Second, lower-than-projected or stalled clearance revenue transfers (due to disputes about the size of deductions for services provided), or a shortfall in donor aid would necessitate unwanted accumulation of arrears and/or excessive spending cuts with a negative impact on growth. Third, a sustained fiscal crisis would undermine confidence in the banking system given banks' high exposure to the PA and its employees.

Policy Challenges

9. **In light of the substantial near-term risks, it is important to:**

- **Carefully manage the fiscal crisis caused by withholding of clearance revenue by Israel**. Provided an agreement on deductions is reached and accrued clearance revenue is received from Israel, the fiscal crisis will ease. However, going forward, the PA will need to compensate for any partial clearance revenue transfers by further expenditure cuts (especially in allowances and operational spending), additional borrowing from the banking system, or arrears accumulation. In rationing expenditure, the authorities should safeguard transfers for poor and vulnerable households. The authorities should also mobilize front-loaded budget support from donors to facilitate the adjustment. Additional borrowing from the banking system may be a possibility, but could breach the PMA's indicative prudential limits, and implies increased debt levels and interest costs, which are already projected to rise substantially in 2015. Arrears accumulation would undermine the private sector, slow the economy, and derail efforts to boost revenues.

- **Maintain a prudent fiscal stance and implement measures to close the projected financing gap for 2015.** Measures should aim to contain growth of the wage bill; accelerate the reduction of poorly targeted fuel subsidies; means test and rationalize transfers for recipients outside the cash transfer program; and increase revenues by raising tax compliance through better enforcement, scaling back of tax incentives, reducing leakages, particularly as concerns large taxpayers, and developing a simplified tax regime for small and micro businesses.

- **Safeguard financial stability.** While the financial system is sound and well capitalized, private credit growth remains high relative to GDP and should be watched, particularly because much of it is concentrated in real estate. The high exposure of the banking system to the PA and its employees calls for vigilance, especially following the earlier suspension of clearance revenue transfers. Recourse

to exceptional loan rescheduling should be limited. To improve the PMA's readiness to handle financial sector stability challenges, it is necessary to continue strengthening risk-based supervision, upgrading stress-test methodologies, enhancing crisis preparedness, and developing a robust bank resolution framework.

- **Public financial management (PFM) needs to be strengthened to support more efficient budget execution and better cash management.** Moving forward on overdue reforms in PFM is needed, with a focus on the need to improve the regulatory framework for PFM—including possibly a new Organic Budget Law—budget execution reforms, addressing weaknesses in the area of accounting and reporting, and improving the macroeconomic relevance and realism of the budget.

10. **More generally, heightened risks and a significantly worsened outlook call for stronger reform efforts to improve economic outcomes.** Notwithstanding current constraints, particularly Israeli restrictions, medium-term fiscal reforms are urgently needed. They should be aimed at lower deficits and a change in the composition of spending away from consumption in favor of development to preserve fiscal sustainability. These reforms should be complemented by structural reforms to improve the investment climate and support a resilient private sector, which ultimately should become the main engine of growth.

Status of IMF Relations

11. The WBG is not a member of the IMF and therefore not eligible for financial assistance from the IMF. Since the 1993 Oslo Accords, the IMF has been providing technical services to the WBG, including policy advice in the macroeconomic, fiscal, and financial areas, as well as technical assistance, with a focus on tax administration, public expenditure management, banking supervision and regulation, and macroeconomic statistics. IMF staff produces regular reports on the implementation of the PA's financial sector reforms, public finance reforms, and budget execution, which are available at www.imf.org/wbg.